Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force  ☒ Health RBC (E) Working Group  ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup  ☐ P/C RBC (E) Working Group  ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup  ☐ Economic Scenarios (E/A) Subgroup  ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 6-6-24

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ON BEHALF OF: Health Risk-Based Capital (E) Working Group
NAME: Steve Drutz
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AFFILIATION: WA Office of Insurance Commissioner
ADDRESS: 5000 Capitol Blvd SE
Tumwater, WA 98501

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Agenda Item # 2024-12-H-MOD
Year 2024

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED
☒ Health RBC Blanks  ☐ Property/Casualty RBC Blanks  ☐ Life and Fraternal RBC Blanks
☒ Health RBC Instructions  ☐ Property/Casualty RBC Instructions  ☐ Life and Fraternal RBC Instructions
☒ Health RBC Formula  ☐ Property/Casualty RBC Formula  ☐ Life and Fraternal RBC Formula
☐ OTHER ___________________________________________________________________________________________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)
Adjust the health care receivable factors in XR021 to include a tiered adjustment.

Additional Staff Comments:
6/6/24 – Modified from Proposal 2024-12-H, to apply tiered factor on non-pharmaceutical rebate receivables in aggregate (i.e., aggregation of Claim Overpayment Receivables, Loan and Advances to Providers, Capitation Arrangement Receivables, Risk Sharing Receivables and Other Health Care Receivables). The Working Group directed re-expose for 14-day public comment period ending 6/20/24.

** This section must be completed on all forms.  
Revised 2-2023
Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for pharmaceutical rebates and amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets. The RBC requirement for pharmaceutical rebates is 20 percent of the first $5 million and a 3 percent charge will be applied to the amount in excess, and a RBC requirement of 19.40 percent is applied to the first $10 million of the aggregated annual statement amount and 5 percent will be applied to the amounts in excess of the $10 million the annual statement amount for all other health care receivables reported in Lines (26.2) through (26.6) in aggregate. Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity’s review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999.

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999.

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999.

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6). Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.
<table>
<thead>
<tr>
<th>Other Receivables</th>
<th>Annual Statement Source</th>
<th>Amount</th>
<th>Factor</th>
<th>RBC Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>(25) Investment Income Receivable</td>
<td>Page 2, Column 3, Line 14</td>
<td>0.010</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-1) Pharmaceutical Rebate Receivables</td>
<td>Exhibit 3, Column 7, Line 0199999</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-2) Claim Overpayment Receivables</td>
<td>Exhibit 3, Column 7, Line 0299999</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-3) Loan and Advances to Providers</td>
<td>Exhibit 3, Column 7, Line 0399999</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-4) Capitation Arrangement Receivables</td>
<td>Exhibit 3, Column 7, Line 0499999</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-5) Risk Sharing Receivables</td>
<td>Exhibit 3, Column 7, Line 0599999</td>
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<td></td>
<td>$0</td>
</tr>
<tr>
<td>(26-6) Other Health Care Receivables</td>
<td>Exhibit 3, Column 7, Line 0699999</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(27) Amounts Receivable Relating to Uninsured Accident and Health Plans</td>
<td>Included in Page 2, Column 3, Line 17</td>
<td>0.050</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(28) Amounts Due from Parents, Subs, and Affiliates</td>
<td>Page 2, Column 3, Line 23</td>
<td>0.050</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(29) Aggregate Write-Ins For Other Than Invested Assets</td>
<td>Page 2, Column 3, Line 25</td>
<td>0.050</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(30) Total Other Receivables RBC</td>
<td>Line (29) = Sum lines (26-1) through (29)</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>(31) Total Credit RBC</td>
<td>Lines (17) + (24) + (30)</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
</tbody>
</table>

* Line (26-1) Pharmaceutical Rebates - A factor of .200 will be applied to the first $5,000,000 in Column (1), and a factor of .050 will be applied to the remaining amount in excess of $5,000,000.

**Lines (26-2) - (26-6) Non-Pharmaceutical Rebates - These lines are aggregated first and a factor of .400 will be applied to the first $10,000,000 in Column (1) and a factor of .050 will be applied to the remaining amount in excess of $10,000,000.